

HEALTHINSIGHT
Consolidated Financial Statements
Years Ended June 30, 2005 and 2004

SMITH POWELL AND COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

HEALTHINSIGHT
Consolidated Financial Statements
June 30, 2005 and 2004

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SMITH POWELL AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

68 SOUTH MAIN, THIRD FLOOR

SALT LAKE CITY, UTAH 84101

INDEPENDENT AUDITORS' REPORT

Board of Trustees
HealthInsight
Salt Lake City, Utah

We have audited the accompanying consolidated statements of financial position of HealthInsight (a non-profit organization) and its related entity as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of HealthInsight and its related entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthInsight and its related entity as of June 30, 2005 and 2004, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2005 on our consideration of HealthInsight and its related entity's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of HealthInsight and its related entity taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Smith Powell and Company, LLC

December 19, 2005

HealthInsight

Consolidated Statements of Financial Position

June 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,538,302	\$ 1,279,438
Investments (Note 3)	491,049	470,657
Accounts Receivable - Federal Direct Contracts	1,035,588	955,537
Accounts Receivable - Federal Pass-Through, Other Contracts and Grants	466,531	332,188
Accounts Receivable - Employees & Other	1,700	2,309
Note Receivable Affiliated Company - Current (Note 13)	145,114	0
Less Allowance for Bad Debt (Note 13)	(145,114)	0
Net Unconditional Promise to Give (Note 11)	23,103	17,577
Prepaid Expenses	<u>104,929</u>	<u>72,554</u>
Total Current Assets	<u>3,661,202</u>	<u>3,130,260</u>
Property and Equipment		
Furniture and Equipment	754,978	744,311
Leasehold Improvements	88,928	106,854
Capital Lease Equipment	<u>72,155</u>	<u>72,155</u>
Total at Cost	916,061	923,320
Less Accumulated Depreciation and Amortization	<u>(792,471)</u>	<u>(742,030)</u>
Net Property and Equipment	<u>123,590</u>	<u>181,290</u>
Long Term and Other Assets		
Deposits	17,817	19,007
Note Receivable Affiliated Company - Long Term (Note 13)	0	93,114
Investment in Affiliated Company and Other Investments (Note 4)	<u>20,719</u>	<u>143</u>
Total Long Term and Other Assets	<u>38,536</u>	<u>112,264</u>
TOTAL ASSETS	<u><u>\$ 3,823,328</u></u>	<u><u>\$ 3,423,814</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 198,973	\$ 185,061
Unearned Revenue	257,544	172,830
Accrued Vacation Wages	215,640	206,708
Accrued Payroll Expenses	238,100	220,517
Capital Lease Obligation - Current Portion (Note 9)	<u>0</u>	<u>15,910</u>
Total Current Liabilities	<u>910,257</u>	<u>801,026</u>
Net Assets		
Unrestricted	<u>\$ 2,913,071</u>	<u>\$ 2,622,788</u>
Total Net Assets	<u>2,913,071</u>	<u>2,622,788</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,823,328</u></u>	<u><u>\$ 3,423,814</u></u>

The accompanying notes are an integral part of the financial statements.

HealthInsight

Consolidated Statements of Activities

For The Years Ended June 30, 2005 and 2004

UNRESTRICTED NET ASSETS	2005	2004
Revenue and Support		
Federal Direct Contracts	\$ 6,037,706	\$ 6,060,016
Federal Pass-Through	1,771,415	1,072,394
Other Contracts and Grants	447,486	147,064
Contributions	50,880	20,748
Investment Return (Note 3)	81,473	142,588
Gain (Loss) on Sale of Equipment	1,659	2,078
Total Unrestricted Revenue and Support	<u>\$ 8,390,619</u>	<u>\$ 7,444,888</u>
Expenses (See Note 11 for Functional Classification)		
Accounting and Auditing	\$ 36,400	\$ 35,300
Administrative Settlement Costs	0	45,000
Bad Debt Expense	145,113	0
Board of Trustee Fees	26,500	23,600
Data Processing and Line Charges	29,655	27,878
Depreciation and Amortization	118,401	195,222
Dues, Registration and Subscriptions	154,966	113,754
Employee Education, Relations and Welfare	14,093	10,503
Fund-raising	0	5,264
Insurance - Premiums for Employee Health, Disability and Life	381,430	346,405
Insurance - Corporate	93,360	86,689
Interest Expense	0	4,987
Legal	9,522	16,081
Maintenance	43,094	46,895
Meetings and Conferences	126,191	140,173
Miscellaneous	106,137	79,779
Office Supplies	61,206	65,448
Other Outside Professional Services	108,907	46,997
Payroll Taxes	323,527	293,972
Pension (Note 5)	352,318	327,381
Physician Consultants	302,168	261,724
Postage and printing	77,748	94,488
Recruiting	0	6,045
Rent - Occupancy (Note 8)	312,322	393,235
Rent - Equipment	10,142	14,091
Salaries	4,027,308	3,738,973
Small Equipment Purchases (Note 7)	24,320	14,350
Subcontract	667,316	183,520
Telephone	72,148	90,904
Temporary Office Labor	35,696	23,656
Training	26,587	7,123
Travel	330,901	369,706
Utilities	82,136	114,267
Total Expenses	<u>8,099,612</u>	<u>7,223,410</u>
Increase (Decrease) in Unrestricted Net Assets from Operations	<u>291,007</u>	<u>221,478</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

HealthInsight

Consolidated Statements of Activities (Continued)

For The Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Other Change in Unrestricted Net Assets		
Equity in Net Income (Loss) of Affiliated Company and		
Other Investments (Notes 4)	<u>(724)</u>	<u>(159,385)</u>
Change in Net Assets	<u>290,283</u>	<u>62,093</u>
 Net Assets at Beginning of Year	 <u>2,622,788</u>	 <u>2,560,695</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 2,913,071</u>	 <u>\$ 2,622,788</u>

The accompanying notes are an integral part of the financial statements.

HealthInsight

Consolidated Statements of Cash Flows For The Years Ended June 30, 2005 and 2004

CASH FLOWS FROM OPERATING ACTIVITIES	2005	2004
Change in Net Assets	\$ 290,283	\$ 62,093
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	118,401	195,222
Bad Debt Expense	145,113	0
(Gain) Loss on Sale of Equipment	(1,659)	(2,078)
(Gain) Loss on Sale of Investment	(1,990)	8,852
Unrealized (Gain) Loss on Investments	(37,441)	(99,185)
Equity Share of Net (Gain) Loss from Investment in Affiliate and Other Investment	724	159,385
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable - Direct Federal Contracts	(80,051)	147,665
(Increase) Decrease in Accounts Receivable - Federal Pass- Through, Other Contracts and Grants	(134,343)	(114,858)
(Increase) Decrease in Net Unconditional Promise to Give	(5,526)	(10,021)
(Increase) Decrease in Accounts Receivable - Other	609	(452)
(Increase) in Prepaid Expenses	(32,375)	(20,388)
(Increase) Decrease in Deposits	1,190	40
(Decrease) Increase in Accounts Payable	13,912	86,830
Increase in Unearned Revenue	84,714	54,392
(Decrease) Increase in Accrued Vacation Wages	8,932	6,480
Increase in Accrued Payroll Expenses	<u>17,583</u>	<u>20,323</u>
Net Cash Provided by Operating Activities	<u>388,076</u>	<u>494,300</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the Sale of Mutual Funds	39,472	27,664
Investment in Mutual Fund	(271)	(25,720)
Additional Equity Investment	0	(66,675)
Investment in Affiliate and Other	(21,300)	0
Proceeds from Liquidation of Investment in LLC	0	25,000
Reinvested Dividends and Capital Gain Distributions	(20,164)	(7,050)
Loans Made to Affiliated Company	(52,000)	(100,000)
Collections on Loans to Affiliated Company	0	259
Proceeds from the Sale of Equipment	1,754	2,620
Acquisition of Property and Equipment	<u>(60,794)</u>	<u>(39,345)</u>
Net Cash Used in Investing Activities	<u>(113,303)</u>	<u>(183,247)</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

HealthInsight
Consolidated Statements of Cash Flows (Continued)
For The Years Ended June 30, 2005 and 2004

CASH FLOWS FROM FINANCING ACTIVITIES

Capital Lease Obligation Principal Payments	<u>(15,909)</u>	<u>(30,317)</u>
Net Cash Used from Financing Activities	<u>(15,909)</u>	<u>(30,317)</u>
Net Increase in Cash and Cash Equivalents	258,864	280,736
Cash and Cash Equivalents Beginning of Year	<u>1,279,438</u>	<u>998,702</u>

CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$1,538,302</u>	<u>\$1,279,438</u>
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Investment Income Received	<u>\$ 25,046</u>	<u>\$ 16,946</u>
Interest paid	<u>\$ 0</u>	<u>\$ 4,987</u>

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2005 and 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Activities - HealthInsight is a nonprofit organization which is tax exempt under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. HealthInsight serves as a community resource for health care quality improvement and quality assurance activities. This work is being performed primarily in the states of Utah and Nevada. The Organization's federal identification number is 87-0303872.

Contributions to the Organization qualify for the charitable contributions deduction to the extent provided by section 170 of the Internal Revenue Code.

- B. Consolidation of Related Entity-The Organization has adopted the provisions of the American Institute of Certified Public Accountants Statement of Position No. 94-3 (SOP 94-3) entitled *Reporting of Related Entities by Not-for-Profit Organizations*. SOP 94-3 states that a not-for-profit organization should consolidate another not-for-profit organization if the reporting not-for-profit organization has both control of the other not-for-profit organization, as evidenced by either a majority ownership or a majority voting interest in the board of trustees of the other not-for-profit organization, and an economic interest in the other not-for-profit organization.

The related entity is identified as:

HealthInsight of Nevada

The related entity was incorporated July 21, 2001 under Nevada nonprofit statutes, with the intent of being designated a Nevada in-state PRO to comply with rules set forth by the Federal Department of Health & Human Services. Certain phases of a Federal contract for the fiscal year ending June 30, 2005 were in the process of being transferred to this related entity. The performance of the contract took place primarily in Nevada by HealthInsight (reporting entity) utilizing its Utah and Nevada employees. The related entity received its tax exempt status under section 501(c)(3) during the year ended June 30, 2004.

- C. Basis of Accounting - Assets, liabilities, revenues and expenses are recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
- D. Unrestricted and Restricted Revenue and Support - Contributions and grants are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- E. Grants and Contributions - Grants and contributions, including unconditional promises to give, are recorded as receivables and as revenue in the period in which the donor's commitment to give is established. All grants and contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give (grants and contributions) are recorded at their net realizable value.

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2005 and 2004

- F. Cash and Cash Equivalents - For financial statement purposes, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.
- G. Investments - Investments consist of mutual funds and equity securities, and are carried at the quoted market value. Investment return consists of investment income, as well as realized and unrealized gains and losses.
- H. Property, Equipment and Depreciation - Property and equipment consist of furniture and equipment and leasehold improvements. Assets are recorded at cost and are being depreciated using the straight-line method over their estimated useful lives from three to five years.

Maintenance, repairs and minor replacements are charged to expense as incurred. Major repairs and replacements that prolong the life of an asset are capitalized. The organization's policy is to capitalize amounts greater than \$500.

- I. Investments in Affiliated Company and Other Investments - The Organization accounts for its investment in an affiliated company and an LLC using the equity method. Its investment in a country club membership is accounted for using the cost method
- J. Reclassifications - Certain 2004 amounts have been reclassified to conform to classifications adopted in 2005.
- K. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- L. Fair Values of Financial Instruments - The Organization's financial instruments include cash and investments. The Organization estimates that the fair value of all financial instruments at June 30, 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information. The market values are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

HealthInsight

Consolidated Notes to Financial Statements

June 30, 2005 and 2004

NOTE 2 - CONCENTRATIONS OF RISK

Business Risk

Direct federal and federal pass-through funds accounted for approximately 93% and 96% of the Organization's unrestricted revenues for the years ended June 30, 2005 and 2004 respectively.

Cash and Cash Equivalents

Cash and cash equivalents that potentially subject the Organization to credit risk included deposits in a financial institution that exceeded the \$100,000 U.S. Federal Deposit Insurance Corporation insurance limit by \$1,303,600 and \$1,081,307 in 2005 and 2004, respectively.

NOTE 3 - INVESTMENTS

The Organization's mutual fund and stock investments are stated at fair value and are summarized as follows:

	June 30, 2005			June 30, 2004		
	Cost	Fair Value	Carrying Value	Cost	Fair Value	Carrying Value
Wasatch Micro Cap Fund	\$ 27,706	\$ 40,058	\$ 40,058	\$ 22,720	\$ 36,126	\$ 36,126
Wasatch Small Cap Growth Fund	14,100	20,819	20,819	13,716	18,335	18,335
Wasatch Core Growth Fund	8,895	16,355	16,355	8,340	14,163	14,163
Wasatch Small Cap Value Fund	12,467	25,019	25,019	9,431	22,051	22,051
Janus Small Cap Value Fund	29,197	34,080	34,080	25,248	32,277	32,277
Davis NY Venture	34,298	34,787	34,787	34,041	31,750	31,750
Eaton Vance ICFD	33,309	29,281	29,281	31,653	27,210	27,210
Franklin Small Cap	33,953	24,706	24,706	33,953	22,777	22,777
Janus Growth & Income	36,675	29,712	29,712	36,520	26,866	26,866
Delaware P/T	0	0	0	24,240	32,343	32,343
Stan Corp Financial Stock	0	204,927	204,927	0	179,292	179,292
Franklin Intl T/Temp Small Co	11,201	13,415	13,415	10,955	11,673	11,673
Templeton Funds Foreign	15,245	17,890	17,890	15,001	15,794	15,794
	<u>\$ 257,046</u>	<u>\$ 491,049</u>	<u>\$ 491,049</u>	<u>\$ 265,818</u>	<u>\$ 470,657</u>	<u>\$ 470,657</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30:

	2005	2004
Investment Income	\$ 25,046	\$ 16,946
Realized Gains (Losses) and Capital Gain Dividends	18,986	26,412
Unrealized Gains (Losses)	37,441	99,230
	<u>\$ 81,473</u>	<u>\$ 142,588</u>

HealthInsight

Consolidated Notes to Financial Statements

June 30, 2005 and 2004

NOTE 4 - INVESTMENT IN AFFILIATED COMPANY AND OTHER INVESTMENTS

Investment in Affiliated Company

The investment in an affiliated company held by the Organization consisted of a 20.64% ownership interest in Q-Mark, Inc., a Colorado for-profit corporation as of June 30, 2005, and June 30, 2004. The investment is accounted for using the equity method. The Organization's initial investment of \$75,000 was increased by an additional \$66,675 in 2004. In addition, the Organization loaned \$160,000 to Q-Mark during the year ended June 30, 2004, and an additional \$50,000 during the year ended June 30, 2005.

In accordance with generally accepted accounting principles, the Organization's share of Q-Mark's June 30, 2004 cumulative net loss of \$208,561 decreased the carrying amount of the investment by \$141,675 to \$0. The remaining cumulative loss of \$66,886 decreased the carrying amount of the loan to \$93,114 as of June 30, 2004, and \$145,114 as of June 30, 2005 (see Note 13).

Subsequent to June 30, 2005, Q-Mark and its shareholders, including the Organization, entered into an agreement whereby all shareholders agreed to sell their stock and notes to a third party purchaser. As part of the agreement, the Organization and other shareholders agreed to sell all of their stock in Q-mark for a nominal amount. In addition, the Organization and other note holders agreed to reduce the principal amounts owed to them and to forgive all accrued but unpaid interest on the notes. As a result, the total amount owed to the Organization on the note was reduced to \$129,661. Due to the sale of its Q-mark stock and the promissory note reduction agreement, no income or loss was recognized by the Organization with respect to Q-mark. See Note 13 for a discussion on the bad debt allowance associated with the note receivable from Q-mark.

Pertinent financial information for Q-Mark, Inc., as of June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Balance sheet		
Assets	\$ 0	\$ 1,032,326
Liabilities	\$	\$ 1,287,819
Equity	0	(255,493)
	<u>\$ 0</u>	<u>\$ 1,032,326</u>
Income Statement		
Revenues	\$	\$ 2,350,800
Expenses	0	3,119,760
Net Income (Loss)	0	(768,960)
	0	x 20.64%
HealthInsight's Share of Net Income (Loss)	<u>\$ 0</u>	<u>\$ (158,713)</u>
HealthInsight's Share of Net Income (Loss) recognized	<u>\$ 0</u>	<u>\$ (158,713)</u>
Initial Ownership Interest	\$ 0	\$ 75,000
Additional Interest Purchased	0	66,675
Share of Cumulative Net Loss	0	(141,675)
Ending Carrying Value	<u>\$ 0</u>	<u>\$ 0</u>

HealthInsight

Consolidated Notes to Financial Statements

June 30, 2005 and 2004

NOTE 4 - INVESTMENT IN AFFILIATED COMPANY AND OTHER INVESTMENTS (Continued)

Other Investments

The other investments held by the Organization consist of a 25% interest in a Limited Liability Company (LLC), and an investment in a country club membership. The LLC investment is accounted for using the equity method. The country club membership investment was purchased in 2005 and is accounted for using the cost method. The total carrying value of these investments was \$20,719 and \$143 at June 30, 2005 and 2004 respectively. It is not practicable to estimate the fair market value of these investments.

The Organization's share of net income (loss) reported on the Statement of Activities as of June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Share of Q-Mark Net Income (Loss)	\$ 0	\$ (158,713)
Share of Coral LLC Net Income (Loss)	<u>(724)</u>	<u>(672)</u>
Equity in Net Income (Loss) of Affiliated Company and Other Investment	<u>\$ (724)</u>	<u>\$ (159,385)</u>

NOTE 5 - EMPLOYEE RETIREMENT PLANS

The Organization has a retirement plan that covers all employees who have completed a minimum service requirement. Benefits under the plan are limited to the balance in participants' accounts. The plan combines a defined contribution feature and a 401(k) elective salary deferral feature. Under the 401(k) provision, employees can contribute up to 100% of their compensation subject to the maximum amounts allowed under federal tax law. The defined contribution feature requires that the Organization contribute an amount equal to 7.6% of each employees's compensation up to the Social Security wage base (the Social Security wage base is equal to 40% of the maximum amount of wages subject to Social Security tax), plus 11.9% of compensation over the Social Security wage base. However, the total contribution from the Organization is limited to 15.2% of compensation up to the Social Security wage base. The Organization's contributions to the plan included in expenses were \$352,318 and \$327,381 for the years ended June 30, 2005 and 2004, respectively. The Organization may make additional optional matching and discretionary contributions, not to exceed federal tax law limitations. For the years ended June 30, 2005 and 2004 the Organization did not make additional optional matching or discretionary contributions.

NOTE 6 - GOVERNMENT OWNED PROPERTY

Standard Data Processing System (SDPS) equipment required for Utah and Nevada Medicare operations are provided by Medicare. The title of the SDPS equipment remains with the Government. The equipment will be returned to the Government when HealthInsight concludes work on Medicare operations, or when the Government upgrades the equipment.

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2005 and 2004

NOTE 7 - SMALL EQUIPMENT EXPENSE

Certain contracts require HealthInsight to purchase equipment. The contract revenue includes reimbursement to HealthInsight for the equipment purchases. Equipment purchased in this circumstance remains property of the contracting agency. These purchases are not included in HealthInsight's schedule of Property and Equipment and are not depreciated, but are considered an expense, and are classified as a small equipment expense.

NOTE 8 - DESCRIPTION OF OPERATING LEASE ARRANGEMENTS

The organization leases its office facilities in Reno and Las Vegas Nevada, and Salt Lake City Utah under operating leases expiring in various years through 2008. The Reno office was closed during the year ended June 30, 2005.

The lease of the Salt Lake City facility covers the period from July 1, 2004 through September 30, 2008 with an option to renew an additional four years. The Organization has two separate leases for office space in Las Vegas. The first lease covers the period from October 1, 2002 through September 30, 2005. The second lease covers the period from April 1, 2004 through September 30, 2005 with no option to renew at the end of the lease term. The lease of the Reno facility covered the period March 1, 2003 through June 30, 2005. The facility was closed by the Organization during 2005.

The aggregate minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2005 are:

Year Ended June 30:

2006	\$ 254,242
2007	221,934
2008	228,603
2009	<u>57,151</u>

Total Minimum Future Rental Payments **\$ 761,930**

The composition of total rental expense for all operating leases was \$312,322 and \$393,235 for the years ended June 30, 2005 and 2004 respectively.

NOTE 9 - CAPITAL LEASE OBLIGATION

The Organization had entered into two capital leases for data processing equipment. As of June 30, 2005 and 2004 the capitalized cost of the equipment was \$72,155, and the accumulated amortization was \$72,155 and \$53,591, respectively. As of June 30, 2005, the leases had expired and all payments had been made. The amounts due on the lease obligations were \$0 and \$15,910 as of June 30, 2005 and 2004 respectively.

HealthInsight

Consolidated Notes to Financial Statements

June 30, 2005 and 2004

NOTE 10 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been summarized by their natural classification in the statement of activities. In addition, these costs have been allocated among the programs and supporting services benefitted as follows:

Program Expenses:	<u>2005</u>	<u>2004</u>
Quality Improvement	\$ 5,013,989	\$ 4,481,290
Quality Assurance	1,254,360	1,247,518
Community Education	606,555	462,438
General and Administrative	1,179,708	1,026,900
Fund-raising	<u>0</u>	<u>5,264</u>
Totals	<u>\$ 8,054,612</u>	<u>\$ 7,223,410</u>

NOTE 11 - PROMISE TO GIVE

Unconditional promises to give, at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Receivable in less than one year	<u>\$ 23,103</u>	<u>\$ 17,577</u>

NOTE 12 - LINE OF CREDIT

The Organization has a \$500,000 line of credit with a bank, all of which was unused at June 30, 2005. The maturity date of the line of credit is February 11, 2006.

NOTE 13 - NOTE RECEIVABLE - AFFILIATED COMPANY

The Organization had loaned \$210,000 plus accrued unpaid interest of \$2,000 to an affiliated company (Q-Mark) as of June 30, 2005. Subsequent to June 30, 2005, Q-Mark was liquidated and its stock and notes sold to a third party (see Note 4). As part of the agreement, the Organization and other note holders agreed to reduce the principal amounts owed to them and to forgive all accrued but unpaid interest on the notes. As a result the total amount owed to the Organization on the note was reduced to \$129,661. Payment of the note is subject to an earn-out provision whereby for the period July 1, 2006 through June 30, 2015 Q-mark will be required to use 40% of its taxable income, if any, to repay holders of its notes which include other entities in addition to the Organization. The notes do not accrue interest. Due to the financial history of Q-mark and other factors, management believes collection of the note is unlikely. Accordingly, an allowance has been established for the full amount of the note at June 30, 2005.

HealthInsight

Consolidated Notes to Financial Statements

June 30, 2005 and 2004

NOTE 13 - NOTE RECEIVABLE - AFFILIATED COMPANY (Continued)

The Organization also had a 20.64% equity interest in Q-Mark (See Note 4). In accordance with generally accepted accounting principles related to accounting for an investment using the equity method, when previous equity method losses have reduced an equity investment to zero, the investor should continue to report its share of equity method losses to the extent of any other loans to the investee. Accordingly, the carrying amount of the loan had been reduced by \$66,886 to \$93,114 as of June 30, 2004.

	<u>2005</u>	<u>2004</u>
Carrying Amount of Note:		
Note to Affiliated Company	\$ 93,114	\$ 160,000
Additional Loan	50,000	0
Accrued Unpaid Interest	2,000	0
Share of Net Loss in Affiliate	<u>0</u>	<u>(66,886)</u>
Ending Carrying Value	145,114	93,114
Allowance for Bad Debt	<u>(145,114)</u>	<u>0</u>
Net Balance June 30	<u>\$ 0</u>	<u>\$ 93,114</u>
 Current Due	 <u>\$ 0</u>	 <u>\$ 0</u>
Long-Term Portion	<u>\$ 0</u>	<u>\$ 93,114</u>

HealthInsight

Consolidated Schedule of Expenditures of Federal Awards For The Year Ended June 30, 2005

<u>Grantor / Program Title</u> <u>Federal Grantor / Pass-Through</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Agency or</u> <u>Pass-through</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
U.S. Department of Health and Human Services through the Centers for Medicare & Medicaid Services (CMS):			
Direct Award - Utah Medicare	93.773	500-99-UT01	\$ 2,344,777*
Direct Award - Nevada Medicare	93.773	500-99-NV01	<u>3,312,298*</u>
Total Direct Awards			<u>5,657,075</u>
Sub-Contract through CMS	93.773	500-02-CA02 04002	1,299,600*
U.S. Department of Health and Human Services through the Centers for Disease Control & Prevention:			
Pass-through from the University of Utah	93.283	RS1/CCR820631	244,222
Pass-through from Utah Department of Health	93.283		9,057
U.S. Department of Health and Human Services through the Agency for Healthcare Research & Quality:			
Pass-through from Utah Department of Health for Patient Safety	93.226	AHRQ RFA HS-01-003	101,512
U.S. Department of Health and Human Services through the Health Resources & Services Administration:			
Pass-through from Utah Department of Health for Assessment of End-of-Life Care	93.241	40208001	50,431
U.S. Department of Health and Human Services through the Health Resources & Services Administration:			
Pass-through from Utah Department of Health for Quality Management Services	93.917	026302	<u>2,433</u>
Total Pass-through Awards			<u>1,707,255</u>
Total - U.S. Department of Health and Human Services			<u>\$ 7,364,330</u>

* Major Program

Note: The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

SMITH POWELL AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

68 SOUTH MAIN, THIRD FLOOR

SALT LAKE CITY, UTAH 84101

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
HealthInsight
Salt Lake City, Utah

We have audited the consolidated financial statements of HealthInsight and its related entity as of and for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether HealthInsight and its related entity's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered HealthInsight and its related entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of HealthInsight and its related entity in a separate letter dated December 19, 2005.

This report is intended solely for the information of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Powell and Company, LLC

December 19, 2005

SMITH POWELL AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

68 SOUTH MAIN, THIRD FLOOR

SALT LAKE CITY, UTAH 84101

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Trustees
HealthInsight
Salt Lake City, Utah

Compliance

We have audited the compliance of HealthInsight and its related entity with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. HealthInsight and its related entity's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of HealthInsight and its related entity's management. Our responsibility is to express an opinion on HealthInsight and its related entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HealthInsight's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of HealthInsight and its related entity's compliance with those requirements.

In our opinion, HealthInsight and its related entity complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of HealthInsight and its related entity are responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered HealthInsight and its related entity's internal controls over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Powell and Company, LLC

December 19, 2005

HealthInsight

Consolidated Schedule of Findings and Questioned Costs

June 30, 2005

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of HealthInsight and its related entity for the year ended June 30, 2005 .
2. There were no reportable conditions relating to the audit of the consolidated financial statements.
3. No instances of noncompliance material to the consolidated financial statements of HealthInsight and its related entity, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for HealthInsight and its related entity expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for HealthInsight and its related entity which are required to be reported in this Schedule.
7. Other matters involving the internal control over consolidated financial reporting and its operations were communicated in a separate letter to management.
8. For purposes of the audit, the Utah and Nevada Medicare contracts and the sub-contract awarded through LUMETRA, CFDA# 93.773 were considered to be major programs.
9. The dollar threshold we used to distinguish between Type A and Type B programs was \$300,000.
10. HealthInsight qualified as a low-risk auditee under § ___.530 of *OMB Circular A-133*.

FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT

The audit disclosed no findings related to the consolidated financial statements which are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

The audit disclosed no findings or questioned costs related to major federal award programs.

HealthInsight
Summary Schedule of Prior Audit Findings
June 30, 2005

CURRENT STATUS:

Auditor found no audit findings for the years then ended June 30, 2004.